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STATE PASS SAN FRANCISCO FRB FOR CURRAN
STATE PASS NEW YORK FRB FOR DAGES/CLARK
STATE ALSO PASS USTR STRATFORD/WINTER/MCCARTIN
PACOM FOR FPA

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E.O. 12958: N/A
TAGS: EFIN ECON EINV WTRO CH
SUBJECT: Foreign Banks in South China Continue to Face Regulatory Barriers

REFERENCE: Guangzhou 5379

(U) This message is sensitive but unclassified. Please handle accordingly.

¶1. (SBU) Summary: Foreign bank representatives based in Guangzhou reviewed with the Consul General at a lunch on September 18 barriers that continue to limit the expansion of their market share. These include lending caps, high capitalization requirements, RMB 1 million minimum deposit for RMB customers, and a limit to two new branches per year. China may have committed in the WTO to open the market to foreign firms fully by the end of 2006, but they expect - and did not seem too concerned that - the transition will be more gradual. They also said Guangzhou has a "critical" shortage of skilled professionals in the banking industry. End Summary.

Ready for RMB Business

¶2. (SBU) Bank of America's Guangzhou Branch Manager Julia Yu said seven foreign banks in Guangzhou had received licenses to conduct RMB business, and they were awaiting further guidance from regulators. Citibank's Guangzhou Branch Manager Milson Lau said CBRC will require that any foreign bank branch register as a PRC company prior to conducting RMB business; he pointed out that this would adversely affect the branch's credit rating. All of the representatives (which also included those from Deutsche Bank and Bank of Montreal) complained that the RMB 1 million minimum deposit requirement for domestic clients is too high, though Lau conceded that most banks would likely select only upper-tier client during the initial stages.

Lending Caps/Regulation Overload

¶3. (SBU) The bankers also complained that their lending volume was restricted by China's foreign bank quotas, which govern bank loans that are based on letters of credit from the parent bank abroad (this is the case for most loans). Bank of America has raised the issue directly with regulators but has seen no significant change. Deutsche Bank's Guangzhou Branch Manager Myron Shi estimated that national and local regulators have issued 200 banking-related rules and regulations during the past year. The bankers said many of these documents include significant overlap, and determining which rule to follow can be difficult.

SAFE Finally Puts It in Writing

¶4. (SBU) Citibank's Lau, who currently heads the Guangdong Foreign Bank Liaison Committee which represents the interests of foreign banks in Guangdong, noted that SAFE recently responded in writing to a question regarding the interpretation of a banking regulation. This was the first time in his experience that SAFE had been willing to clarify an interpretation in writing instead of verbally. The bankers mentioned that communication between them and CBRC and the People's Bank of China had also improved somewhat this year.

Help Wanted

¶6. (SBU) The banks all agreed that Guangzhou faces a significant shortage of skilled professionals in the banking industry. Citibank's Lau said this is particularly true for marketing positions. Bank of Montreal's Guangzhou Branch Manager Brendan Wong estimated employee turnover at his office to be between 33 and 50 percent annually. Deutsche Bank and Bank of America estimated their turnover to be approximately 20 percent.

Citibank on Guangdong Development Bank

¶7. (SBU) Citibank's Lau insisted that the bid by Citibank and its partners for Guangdong Development Bank had not been approved, despite press reports stating it had been. Though he is not involved in the negotiations, he said Citibank is intent on gaining management control in the deal. He characterized the lengthy approval process as an example of the disconnect between local regulators (who allowed it to move forward) and national regulators

(who decided it had gone too far). He added that buying a domestic bank with its branches already established is the most efficient way to enter the China market.

Comment

¶8. (SBU) These issues have been around for many years, and are unlikely to disappear by the end of the year. Deutsche Bank's Shi characterized China's banking policy as "two steps forward, one step back." The representatives were not openly critical of the central government's overall approach to banking regulation and seemed content to deal with difficulties as long as they continue to earn a profit.

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